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**State Budget Update, December 2008**

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ITEM 6

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## Summary

On September 23, 2008, the Governor signed the 2008–09 Budget Act. The budget included \$145 billion in general purpose funds, with \$104 billion of this from the State General Fund. Since then, economic conditions have deteriorated, as have state tax revenues. The budget deficit, once projected as up to \$6 billion through June 2010, is now estimated to be \$28.2 billion. The 2008–09 shortfall is an estimated \$11.2 billion. To address this problem, the Governor implemented some initial budget reductions and called the Legislature into special session on November 15.

## Actions to Date

In October, the Governor used authority granted him in the budget to require most state-funded agencies to reduce spending by 1%. He then presented a more comprehensive proposal to revise the current-year budget by making \$4.5 billion in additional spending cuts and increasing state revenues by \$4.7 billion. This proposal would have resulted in \$464 million in cuts to the University of California, California State University, and the California Community Colleges, with \$332 million to the community colleges.

On November 15 the Legislature convened in special session, beginning with a meeting of the Assembly Budget Committee. The Legislature held hearings on the budget situation and voted on one proposal on November 25 but did not adopt any changes to the budget. On December 1, the new Legislature was sworn in for the 2009–10 session. The Governor immediately declared a fiscal emergency, giving the Legislature 45 days to pass legislation addressing the deficit. If the Legislature does not submit a budget proposal to the Governor by January 15, both houses must stay in session and may not take up any other bills until an agreement is reached.

## California's Fiscal Situation

California state revenues have been hit hard by the spreading economic recession. The final accounting of State General Fund revenues for the 2007–08 fiscal year shows they were \$567 million lower than the most recent estimates. For 2008–09, General Fund revenues are expected to be nearly \$11 billion lower than initial estimates, and projections for 2009–10 revenues have been lowered by \$13 billion. The Department of Finance reported that through September, California lost 78,600 nonfarm jobs and over the most recent four months has lost an average of 13,200 jobs each month.

## Higher Education

The state's three public higher education systems have all had their initial 2008–09 funding reduced over the past two months as part of the 1% cut. UC's reduction was \$33.1 million and CSU's was \$33.4 million. The 2008–09 budget already stressed their ability to maintain access, providing no enrollment growth funding for UC and CSU and a 2% increase for the community colleges. This resulted in no marginal cost funding for 4,000 full-time-equivalent students at UC and 8,000 at CSU.

As the state's budget problems are expected to lengthen and possibly worsen, the governing boards of UC and CSU have taken actions to reduce enrollments in 2009–10. Both systems are considering in-

creases in student fees and other actions to reduce administrative and campus spending. Many community colleges have reduced course section offerings, laid off non-tenured faculty and dipped into their financial reserves to compensate for budget cuts.

### **Urgency of Addressing the Budget**

The current fiscal year is nearly half over and the savings and new revenues that can be generated from any budget-revision proposals shrinks with each passing day. The Department of Finance estimates that if the Governor's November 2008 proposal to generate \$9.2 billion in savings is not in place by February or after the 2009–10 budget is proposed, the November proposal will generate only \$7.2 billion.

### **Resolving the budget dilemma**

State policymakers have wrestled for the past two fiscal years over how to bring state expenditures in line with state spending. The crux of the disagreement has been over what role, if any, new state and local revenues (increases in taxes and fees) should play in resolving the budget problem. This basic disagreement has frustrated attempts at making both immediate and long-term changes to state budget policies. Resolution of this question will significantly affect the state's economy, the levels of public services, and the relation of local and state government in providing programs to 37 million Californians.

### **Potential Actions**

California's current budget shortfall shows every sign of getting worse before it gets better, given state, national, and international economic trends. In early December, the National Bureau of Economic Research concluded that the national economy has been in recession since December 2007. In Washington, D.C., the Congress and the present and incoming Administration continue work to stimulate the national economy and lessen the impact of the economic downturn.

The state's 2008–09 budget included a provision allowing the Governor to reduce state operations budgets by up to 7% during the fiscal year by suspending cost-of-living adjustments, service provider rate increases, state portions of costs of local programs, and making other unallocated state program reductions. He has already exercised this power with a 1% budget cut in October. The special session convened with the just-elected Legislature may result in changes to the current-year budget. However, judging by public pronouncements from many members, the sticking point of "revenues vs. reductions" remains unresolved.

### **Links to Budget Information**

Information on efforts to resolve the budget shortfall and on the reactions of the higher education systems to the budget problem is available at these web sites:

#### **Department of Finance**

Governor's Budget Special Session 2008–09 – November 2008

[http://www.dof.ca.gov/documents/special\\_session\\_08-09\\_web.pdf](http://www.dof.ca.gov/documents/special_session_08-09_web.pdf)

#### **Governor's Office**

Governor Schwarzenegger announces plan to address budget emergency, stimulate California's economy – November 10, 2008

<http://gov.ca.gov/index.php?/press-release/10966/>

**California Legislature, 2007–08 Fourth Extraordinary Session**

Proposed legislation dealing with the 2008–09 State Budget (none approved):

SBX4 6 (Steinberg)

SBX4 7 (Committee on Budget and Fiscal Review)

SBX4 8 (Committee on Budget and Fiscal Review)

SBX4 9 (Committee on Budget and Fiscal Review)

SBX4 10 (Committee on Budget and Fiscal Review)

SBX4 11 (Committee on Budget and Fiscal Review)

<http://www.assembly.ca.gov/acs/acsframeset2text.htm>

**Legislative Analyst's Office**

Overview of the 2008 Special Session Proposals – November 10, 2008

[http://www.lao.ca.gov/2008/bud/nov\\_revise/nov\\_revise\\_overview\\_111108.pdf](http://www.lao.ca.gov/2008/bud/nov_revise/nov_revise_overview_111108.pdf)

California Spending Plan 2008–09: The Budget Act and Related Legislation – November 1, 2008

[http://www.lao.ca.gov/2008/spend\\_plan/spending\\_plan\\_08-09.pdf](http://www.lao.ca.gov/2008/spend_plan/spending_plan_08-09.pdf)

**University of California UC Newsroom**

UC Regents warn freshman enrollments will be curtailed without sufficient funding, adjust budget to clarify no student fee increase assumed – November 20, 2008

<http://www.universityofcalifornia.edu/news/article/19016>

**California State University News**

California State University declares systemwide impaction – November 20, 2008

[http://www.calstate.edu/PA/news/2008/systemwide\\_impaction.shtml](http://www.calstate.edu/PA/news/2008/systemwide_impaction.shtml)

**California Community Colleges System Office**

Governor's mid-year budget reductions include major cuts to the community colleges – November 7, 2008

[http://www.cccco.edu/Portals/4/News/press\\_releases/Mid-Year%20Budget%20Cuts%20News%20Release%20Final.pdf](http://www.cccco.edu/Portals/4/News/press_releases/Mid-Year%20Budget%20Cuts%20News%20Release%20Final.pdf)